

Message Text

PAGE 01 NATO 01253 01 OF 02 081214Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-07
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R 081037Z MAR 77
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TO SECSTATE WASHDC 2064
SECDEF WASHDC
INFO JCS WASHDC
USCINCEUR
AMEMBASSY PARIS
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USNMR SHAPE

CONFIDENTIAL SECTION 1 OF 2 USNATO 1253

E.O. 11652: GDS
TAGS: MARR, NATO
SUBJECT: MEETING OF CENTRAL EUROPE PIPELINE POLICY COMMITTEE
(CEPPC) IN BRUSSELS, 3-4 MARCH 1977

REFS: A. AC/120-D/993; B. AC/120-R/232 (ITEM III)

SUMMARY: AT THE CEPPC MEETING HELD ON 3-4 MARCH 77, THE MAIN ITEM OF DISCUSSION WAS, REF A, PREPARED FOR THE "MEETING AT THE LEVEL OF DEPUTY PERMANENT REPRESENTATIVES ON CENTRAL EUROPE PIPELINE SYSTEM (CEPS) FINANCIAL PROBLEMS". THIS DOCUMENT PROVIDES BACKGROUND INFORMATION ON CEPS FINANCIAL PROBLEMS, A COMPROMISE SOLUTION, AND THE CHAIRMAN'S ANALYSIS OF THE SITUATION; THE LATTER TWO ARE ESSENTIALLY THE VIEWS OF THE CHAIRMAN AND WERE ONLY NOTED AS SUCH BY THE MEMBERS. ALTHOUGH MODIFICATIONS TO THIS DOCUMENT ARE STILL BEING MADE, A REVISED VERSION WILL BE AVAILABLE TWO WEEKS BEFORE A PROPOSED MEETING OF THE DEPUTY PERMREPS. THIS MEETING COULD TAKE PLACE AS EARLY AS 1 APRIL 77. THE FRENCH STILL HAVE A CONFIDENTIAL

PAGE 02 NATO 01253 01 OF 02 081214Z

RESERVATION ON THE APPOINTMENT OF MR. FEINBERG AS DIRECTOR OF FINANCE, CENTRAL EUROPE OPERATING AGENCY (CEOA) PENDING THE DISPOSITION OF MR. VAYLAC'S JOB CONTRACT. END SUMMARY.

I. ITEMS OF PRINCIPAL INTEREST ARE REPORTED BELOW AND ARE KEYED TO AGENDA ITEMS.
II. 1977 BUDGET OF CEOA AND DIVISIONS. FRG REP (DOOR) STILL MAINTAINED A RESERVATION ON THE 1977 BUDGET DUE TO UNCLEAR QUESTION OF FRENCH TAXATION. THE GENERAL MANAGER (VERBOIS) INDICATED THAT BLOCKING THE BUDGET CAUSED A FINANCIAL STRAIN ON

CEOA, AND IT WAS AGREED TO UNBLOCK FUNDS FOR OPERATIONS DURING THE SECOND QUARTER OF 1977. FRG REP WILL ALSO SEEK APPROVAL TO RELEASE SOME FUNDS FOR CAPITAL EXPENDITURES.

III. MILITARY TARIFFS - EXCHANGE RATE FLUCTUATIONS (REF B) FRENCH REP (GENTILHOMME) STILL COULD NOT AGREE TO THE NEW AUTOMATIC SYSTEM OF REVISING MILITARY TARIFFS ON THE BASIS OF EXCHANGE RATES. US REP (LOVELAND) POINTED OUT THAT THE FRENCH RATE OF INFLATION WAS CURRENTLY HIGHER THAN THAT OF OTHER HOST NATIONS AND A CHANGE IN THE EXCHANGE RATE WAS THE ONLY WAY WE COULD TAKE ACCOUNT OF THIS. HE POINTED OUT THAT IT IS FINANCIALLY ADVANTAGEOUS FOR THE FRENCH TO APPROVE THE REASSESSMENT, SINCE THEIR OBLIGATION WAS 15 PERCENT OF MILITARY EXPENSES VS 22 PERCENT OF THE DEFICIT.

IV. CEOA ESTABLISHMENT. IT WAS AGREED, SUBJECT TO BELGIAN AND UK CONFIRMATION, THAT BAYLAC WOULD BE OFFERED A ONE YEAR CONTRACT WITH A NEW JOB DESCRIPTION UNDER THE PROVISIONS OF ARTICLE 5.12 OF NAT PERSONNEL REGULATIONS. THE FRENCH REP CONTINUED HIS RESERVATION ON THE ASSIGNMENT OF MR. FEINBERG AS DIRECTOR OF FINANCE PENDING SETTLEMENT OF THE BAYLAC CASE. HE AGREED, HOWEVER, TO ATTEMPT TO EXPEDITE FRENCH AGREEMENT.

V. PIPELINE PROJECTS IN THE INFRASTRUCTURE PROGRAMME.

(C) PREFINANCING OF INFRASTRUCTURE PROJECTS. IT WAS AGREED THAT HOST NATIONS WOULD PREFINANCE ON A CASE-BY-CASE BASIS, AND THAT CEOA WOULD HAVE ITSELF ADDED TO THE LIST OF AGENCIES THAT CAN ACT AS HOST NATIONS ON INFRASTRUCTURE PROJECTS SO THAT THEY COULD PROVIDE A DECLARATION OF INTENT TO PREFINANCE EITHER IN AN

CONFIDENTIAL

PAGE 03 NATO 01253 01 OF 02 081214Z

ADMINISTRATIVE OR ACTUAL ROLE AS HOST NATION WHERE REQUIRED.

CONFIDENTIAL

PAGE 01 NATO 01253 02 OF 02 081228Z

ACTION EUR-12

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CONFIDENTIAL SECTION 2 OF 2 USNATO 1253

FRG COULD AGREE TO HOST THE RHINE CROSSING UNDER CONDITIONS WHICH INCLUDE A FORMAL STATEMENT BY FRANCE TO ALLOW THE GERMANS TO DO THE WORK ON FRENCH TERRITORY. CEPPC PREFERRED THAT CEOA ACT AS HOST NATION IN VIEW OF FRENCH RELUCTANCE TO BE THE FORMAL HOST NATION AND THEIR DESIRE TO SUPERVISE THE WORK.

(D) REPLACEMENT OF ADN ENGINES. BELGIAN REP (DECORTE)

CONFIRMED THEIR TELEGRAM TO THE COMMITTEE WITHDRAWING FROM THE AGREEMENT TO HAVE NAMSA PROCURE THE ADN ENGINES. THE REASON FOR DOING THIS WAS A DELAY IN PROCUREMENT DUE TO NAMSA PROCEDURES AND THE LACK OF PROVISION TO PROVIDE FOR POSSIBLE DISPUTES. THE GENERAL MANAGER INDICATED THAT THE CEPS COMMITMENT TO NAMSA WOULD ALREADY COST 180,000 BELGIAN FRANCS THROUGH PHASE I OF THE ADN ENGINE PROCUREMENT. THE CHAIRMAN (HOFMAN) INDICATED THAT THE AGREEMENT HAD ALREADY BEEN MADE AND BELGIUM COULD NOT BACK OUT OF THE NAMSA UNDERTAKING WITHOUT CEPPC CONCURRENCE. CEPPC DETERMINED THAT IT WAS PREMATURE TO CONCLUDE THAT NAMSA PROCEDURES COULD NOT BE MODIFIED TO MEET ADN PROCUREMENT NEEDS AND THAT PERHAPS THE BEST SOLUTION WAS TO RERUN THE BIDS THROUGH NAMSA UNDER AN

CONFIDENTIAL

PAGE 02 NATO 01253 02 OF 02 081228Z

ACCELERATED INFRASTRUCTURE PROCEDURE.

VI. CEPS FINANCIAL PROBLEMS. THE FRENCH REP CONTINUES TO BE RELUCTANT TO APPROVE REF A FOR REFERENCE TO DEPUTY PERMREPS, SINCE IT DOES NOT IN ALL CASES CAST THE FRENCH POSITIONS IN A WAY TO ABSOLVE FRANCE FROM ERROR. THE FRENCH WERE GIVEN UNTIL 18 MARCH TO PRIVIDE ANY RECOMMENDED MODIFICATIONS.

VII. ANY OTHER BUSINESS.

A. THE FRG REP REQUESTED INFORMATION ON THE AMOUNT ALLOCATED BY CEOA IN THE 1977 BUDGET TO PAY FRENCH TAXES. THIS RELATES TO THEIR RESERVATION ON THE CEOA 1977 BUDGET.

B. THE FRG REP ANNOUNCED THE FRG WOULD HOST THE ANNUAL JOINT MEETING OF CEPPC/CEPO IN BONN FROM 9 THROUGH 11 MAY 1977.

2. COMMENTS:

A. THE FRENCH DISPLEASURE WITH THE DOCUMENT ON CEPS FINANCIAL PROBLEMS (ITEM VI) TO BE DISCUSSED BY THE DEPUTY PERMREPS APPEARS TO STEM FROM THE FACT THAT OLD PROBLEMS HAVE NOT BEEN SURFACED AT A HIGH LEVEL IN THE FRENCH GOVERNMENT.

B. THE SOLUTION TO THE EMPLOYMENT OF MR. FEINBERG AND MR. BAYLAC (ITEM IV) APPEARS TO BE ACCEPTABLE TO THE FRENCH, ALTHOUGH UNDER THE CURRENT PROPOSAL MR. BAYLAC COULD NOT RECEIVE MORE THAN ONE EXTENSION, ONE ADDITIONAL YEAR, TO A NEW CONTRACT. END COMMENT. STRAUSZ-HUPE

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